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28 January 1957

MEMORANDUM FOR: Director of Central Intelligence

THROUGH : Deputy Director (Support)

SUBJECT : Status of Audit Program for Calendar Year 1956

## GENERAL

1. During the calendar year 1956 the Audit Staff continued to expand and improve the audit coverage of Agency funds and property. All financial accounts have been audited, except a few property financial accounts, and much progress has been made in the audit coverage of property. These audits indicated continued improvement in the accounting for Agency assets. Deficiencies were still noted, primarily with respect to property records and control; however, steps are being taken by the responsible components to overcome these deficiencies.

2. For the past few years the audit program has been in a transition stage, moving gradually from more or less detail audits of accounts and property to broad comprehensive type audits designed to increase the overall efficiency of Agency financial operations. Improvements made by the Office of the Comptroller and Office of Logistics in accounting for assets and in internal control over property will permit the Audit Staff to further broaden its program in 1957 to place more emphasis on financial, accounting, budgetary, and property procedures and practices.

3. The weakest facet of our whole fund accounting program deals with the procedure for advances to agents. Receipts from agents cannot be verified as to their authenticity, except by the statement of the case officer making the contact that he could not get a receipt or that the receipt submitted by him is genuine. Protection of Agency assets in such matters depends mainly upon the honesty of our case officers and on the close supervision given their finance operations by their chief of station or by the chief of the Headquarters division interested in the project. The Comptroller in cooperation with the Chief, Audit Staff, is making a study of this phase of accounting in an effort to develop a sound, practicable accounting procedure.

4. Existing procedures provide for a report of audit to be made by the Audit Staff to all interested parties for their information and correction of any irregularities noted and prompt action is being taken on reports

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made. Audits of overseas stations are reported to the chief of such stations with copies of the report being furnished the Chief, Audit Staff, (Headquarters) for review and submission to the Deputy Director (Plans) and other interested Headquarters units. Similar action is taken on reports of audits originating with the Headquarters Audit Division and on reports submitted by public accountants and reviewed by such division.

5. The Chief, Audit Staff, and the various chief auditors overseas are receiving full cooperation from all Agency personnel in performing their audit function.

#### AUDIT ORGANIZATION

6. No change was made in 1956 in the basic organization of the Audit Staff, consisting of the Office of the Chief, the Headquarters Audit Division, and three field audit units. However, in order to strengthen the overall administration of the audit program and to assure its independence, the personnel in the field audit units were transferred from the respective area Tables of Organization to the Audit Staff Table of Organization, and an Assistant for the Chief, Audit Staff, was appointed.

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8. Because of the keen competition for auditors from the GAO, Army Audit Agency, and civilian firms, it has not been possible to bring the on-duty strength of the Audit Staff up to the ceiling of 48. Personnel are in process of clearance for the five vacancies existing at 31 December; however, based on previous experience, some of these applicants no doubt will take other positions prior to final clearance.

#### AUDIT ACCOMPLISHMENTS - HEADQUARTERS

##### Proprietary Projects

9. The policy is to audit and issue a report of audit annually on each proprietary project. All such projects are audited by Agency auditors except when security or other reasons preclude, in which cases the audits are by public accountants.

10. All proprietary projects due for audit in 1956 were audited or were in process of audit at the end of the year, except for a few due for audit in the last quarter of the year. Audits of proprietaries are usually made as of the end of the projects' fiscal years. Because of this, it happens that more projects come due for audit in the last six months of a calendar

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year than in the first six months; consequently, it is usually necessary to carry a few audits over at the end of the year. It is contemplated that the audit of proprietary projects will be current by 30 June 1957.

Subsidy and Other Projects

11. The policy is to test audit a representative number of subsidy and other projects in connection with periodic audits of the Agency accounts in which advances to such projects are recorded. These accounts were audited in 1956 and reports submitted to appropriate Agency components for action where warranted. In addition, certain larger subsidy projects are audited annually by public accountants and, when circumstances warrant, special audits of individual projects are made by Agency auditors. Reports are released on all audits of individual projects.

12. Because it has been felt by the Audit Staff that the above program may not be adequate for the Agency's needs, a special study was initiated in 1956 designed to establish control over the audit status of subsidy and other projects and to determine adequacy of Agency control over such projects. This study will be completed shortly and may result in a revised audit policy for 1957.

Domestic Installations

25X1A 13. The policy is to make annual audits of these installations. In 1956 audits were made of [REDACTED]

Financial Accounts

14. The Audit Staff in 1956 completed a cycle encompassing the audit of all financial accounts except for a few of the financial property accounts. Because of the marked improvement in the condition of the accounts, and our increased knowledge of them, the audit program for 1957 will be streamlined considerably to eliminate some detail audit work done previously. The future policy will be to audit the major accounts at least annually and to review other accounts only when, within the judgment of the Audit Staff, it appears necessary. This will enable the Audit Staff to spend more time on reviewing financial, accounting and budgetary procedures and making special surveys designed to increase the overall efficiency of Agency financial operations.

Property

15. The policy has been to review property procedures and to audit property "in stock" and "in use" on an annual basis. In 1956 much was accomplished along these lines. However, because of the volume of property and property accounts, the condition of some of the property records, and limited audit personnel available, it has not been possible to audit all property and property accounts on an annual basis.

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16. During 1956 an Inspection and Inventory Staff was established in the Supply Division of the Office of Logistics. The mission of this newly-created staff includes (a) internal review of property procedures and regulations and their application, (b) supervision of inventory of "in stock" and "in use" property on a regulated schedule and the reconciliation of inventory results with accountable records, and (c) serving as technical advisors on problems relating to property accountability.

17. The establishment of this staff will permit the Audit Staff to gradually modify its scope of audit to place more emphasis on the audit of property procedures and their application and less emphasis on the audit of the numerous individual property accounts. It is also anticipated that the Audit Staff can now direct attention to the Agency purchasing and contracting procedures and practices.

#### Industrial Contracts

18. The Audit Staff reviews the audit reports, techniques and procedures of the Industrial Contracts Audit Branch and participates in decisions made concerning the limitation of audit of contracts.

#### Other Audits

19. Audits were made in 1956 of the Northwest Federal Credit Union, Government Employees Health Association (GEHA), Executive Dining Room, and the Consolidated Charities Fund. Also, the bi-annual confirmation of credit union share and loan accounts was made.

20. The Chief, Audit Staff, also inspected eight contact stations and one [REDACTED] in the U.S. during 1956 and plans to visit others this spring.

#### AUDIT ACCOMPLISHMENTS - OVERSEAS

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in that area in 1957.

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Chief, Audit Staff

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